

**Medical Devices
Electro-Optical Sciences
Buy****MELA - \$8.70
Price Target: \$12.00****MELA: Enrollment Almost Finished, Timelines Established****THINK ACTION:**

Electro-Optical Sciences updated the progress on its PMA trial today, stating that enrollment is 91% complete and it has begun finalizing the data collection and preparing for FDA submission. The timelines that MELA established are a bit slower than we anticipated, but we are holding to our estimate that approval and launch is possible by the end of 2009. We think that it is likely that the company will meet the trial endpoints. We reiterate our BUY rating and \$12 price target.

KEY POINTS:

With the trial enrollment almost done, the focus is now on what will happen next for the company. We anticipate multiple events over the next year that may drive shareholder value.

Upcoming Potential Milestones

Data and PMA Submission – The trial is weeks away from enrollment completion and Electro-Optical Sciences has collected data to teach the algorithm, therefore, the next step is finishing programming the algorithm. The company will then submit the trial data along with its algorithm to a third party that then crunches the numbers. We think that the company will not release the data until after it has been submitted to the FDA, and that it will not give specific numbers, but a simplified statement about whether or not endpoints were achieved. We had anticipated an announcement in 3Q08, but the company has stated it expects to unblind the data in 4Q when it submits it to the FDA.

Commercialization Plan – We anticipate Electro-Optical Sciences will not try and build up its own sales and marketing organization. We believe that a partnership with an established dermatology company makes the most sense as relationships with the sales call point will be critical. This announcement is likely to happen after FDA submission and before approval. The basic plan is to charge a clinic \$4,000 to take the capital equipment and charge \$50-100 per patient per examination. The price per exam will vary depending on how many lesions are to be scanned.

PMA Approval – Electro-Optical Sciences already has fast track approval and is in communication with the FDA before submission, which will likely expedite the turning of documents and review times. Submission by 4Q08 is likely, a bit later than we initially anticipated. We believe that approval in nine months is feasible, especially because the panel preparations are already underway. The first revenues and launch of the product may happen shortly after approval by the end of 2009.

Public Awareness – MELA has stated it will undertake an awareness campaign. We believe that the MelaFind device has significant consumer appeal and that the broad presentation of the device in the popular media could trigger significant retail investor interest.

*Priced intraday

**Reason for Report:
Company Update**

Stephan Ogilvie

212-468-7022, sogilvie@thinkpanmure.com

Changes	Current	Previous
Rating	Buy	--
Price Target	\$12.00	--
FY07A REV (M)	\$0.0A	--
FY08E REV (M)	\$0.0E	\$0.3E
FY07A EPS	(\$0.84)A	(\$0.82)E
FY08E EPS	(\$1.14)E	(\$1.06)E

52-Week High:	\$9.99
52-Week Low:	\$3.84
Shares O/S-Diluted (M):	15.4
Market Cap (M):	\$134.0
Average Daily Volume:	99,117
Short Interest:	1.1%
Debt/Total Cap:	NM
Net Cash Per Share:	\$1.12
P/E (12-month forward):	NM
Est. Long-Term EPS Growth:	40.0%
P/E/G:	NM
Fiscal Year-End:	Dec

REV (M)	2006A	2007A	2008E
Mar	NA	\$0.0A	\$0.0A
Jun	NA	\$0.0A	\$0.0E
Sep	NA	\$0.0A	\$0.0E
Dec	NA	\$0.0A	\$0.0E
FY	\$0.0A	\$0.0A	\$0.0E
CY	NA	NA	NA
FY P/S	NM	NM	NM
CY P/S	NM	NM	NM

EPS	2006A	2007A	2008E
Mar	NA	(\$0.22) A	(\$0.28) A
Jun	NA	(\$0.23) A	(\$0.28) E
Sep	NA	(\$0.18) A	(\$0.29) E
Dec	NA	(\$0.20) A	(\$0.29) E
FY	NA	(\$0.84) A	(\$1.14) E
CY	NA	NA	NA
FY P/E	NM	NM	NM
CY P/E	NM	NM	NM



VALUATION:

We reiterate our Buy rating and \$12 price target based on a 6.5x forward multiple of our 2011 revenue projection of \$41.8M discounted back at 20%.

RISKS TO PRICE TARGET:

Electro-Optical Sciences technology is still in trial phase and though preliminary data is promising, the technology is unproven clinically. MELA has not established a firm commercialization plan as of yet.

COMPANY DESCRIPTION:

Electro-Optical Sciences is currently developing a hand-held diagnostic device (the MelaFind) which could improve the accuracy with which doctors can diagnose melanoma (skin cancer). The MelaFind is currently undergoing clinical trials, and we anticipate product approval and launch in 2008.

ELECTRO-OPTICAL SCIENCES

<i>\$ millions except EPS, FY Dec 31</i>	2005	2006	2007	1Q	2QE	3QE	4QE	2008E	2009E	2010E	2011E
Total revenue	--	--	--	--	--	--	--	--	0.4	16.0	41.8
Cost of goods sold	--	--	--	--	--	--	--	--	1.1	5.2	4.8
Gross profit	--	--	--	--	--	--	--	--	(0.7)	10.9	37.0
General and administrative, sales	2.6	4.5	5.4	1.4	1.5	1.6	1.7	6.2	8.3	12.4	15.1
Research and development	2.6	7.6	7.7	3.0	3.0	3.0	3.0	12.2	11.8	13.0	15.2
Income (loss) from operations	(5.3)	(12.1)	(13.1)	(4.5)	(4.6)	(4.6)	(4.7)	(18.4)	(20.8)	(14.6)	6.6
Interest income	0.2	0.7	1.1	0.2	0.3	0.2	0.1	0.8	(0.1)	(1.3)	(1.9)
Other income			0.1	0.0							
Income (loss) from continuing operations	(5.1)	(11.4)	(12.0)	(4.3)	(4.3)	(4.4)	(4.6)	(17.6)	(20.9)	(15.9)	4.7
Income (loss) from discontinued operations	(0.5)	0.8	0.0								
Net Income (loss)	(5.6)	(10.6)	(11.9)	(4.3)	(4.3)	(4.4)	(4.6)	(17.6)	(15.2)	(10.3)	3.0
Net loss attributable to common shareholders	(7.8)	(10.6)	(11.9)	(4.3)	(4.3)	(4.4)	(4.6)	(17.6)	(15.2)	(10.3)	3.0
Basic shares	3.5	11.3	14.2	15.4	15.5	15.5	15.6	15.5	15.8	16.1	16.3
EPS -Basic	(2.24)	(0.94)	(0.84)	(0.28)	(0.28)	(0.29)	(0.29)	(1.14)	(0.97)	(0.64)	0.19
Fully diluted shares	3.5	11.3	14.2	15.4	15.5	15.5	15.6	15.5	15.8	16.1	16.3
Diluted EPS	\$(2.24)	\$(0.94)	\$(0.84)	(\$0.28)	(\$0.28)	(\$0.29)	(\$0.29)	\$(1.14)	\$(0.97)	\$(0.64)	\$0.19
<u>Margin Analysis</u>											
Gross Margin	NA	NA	NA					NA	NA	NA	88.5%
S. G. & A.	NA	NA	NA					NA	NA	NA	36.2%
R & D	NA	NA	NA					NA	NA	NA	36.5%
Operating Margin	NA	NA	NA					NA	NA	NA	15.8%
Revenue growth rate	NA	NA	NA					NA	NA	NA	160%
EPS growth rate	NA	NA	NA					NA	NA	NA	NA

Source: Company Reports and ThinkPanmure, LLC estimates



Important Disclosures

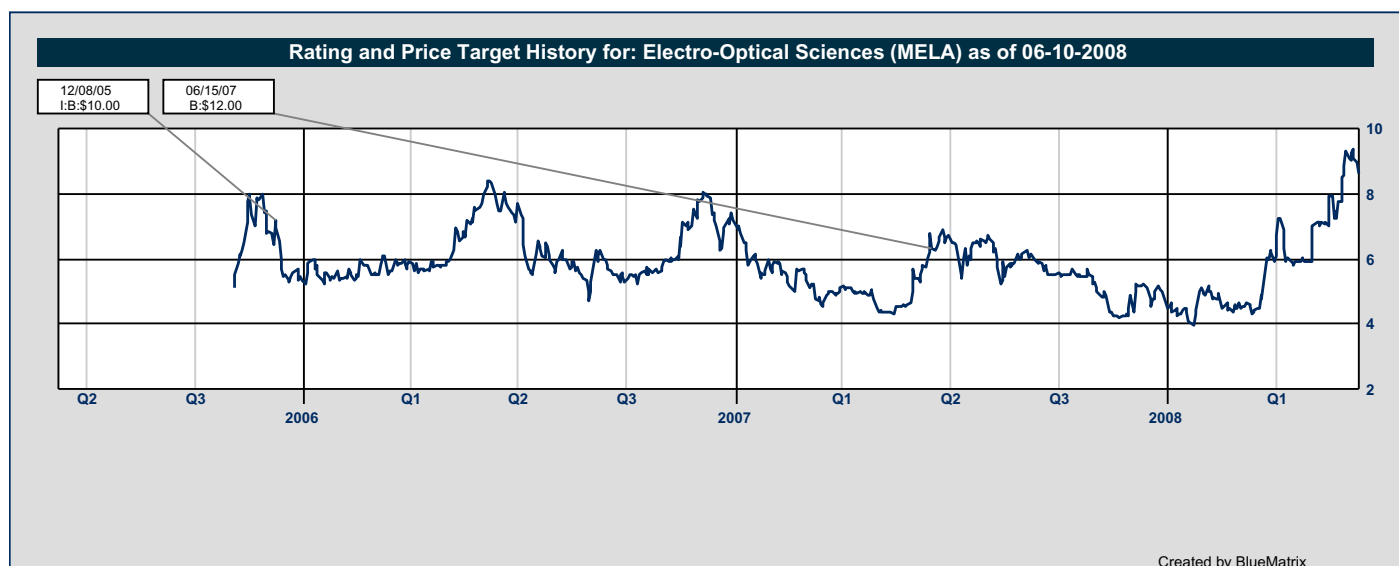
Analyst Certification

I, Stephan Ogilvie, hereby certify that all of the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

The analyst(s) responsible for preparing this report has/have received compensation based on various factors, including the firm's total revenues, a portion of which is generated by investment banking activities.

ThinkPanmure, LLC and/or an affiliate received compensation for investment banking services from Electro-Optical Sciences in the past 12 months.

ThinkPanmure, LLC makes a market in Electro-Optical Sciences securities; and/or associated persons may sell to or buy from customers on a principal basis.



Rating definitions and allocations

The ThinkPanmure, LLC rating system is based on a stock's expected total return over a 12-month investment horizon. Ratings on coverage are defined as follows:

Buy: Appreciation potential of 20% or more over the next 12 months. Analyst has a high level of conviction that the company's business fundamentals are intact and that the company will meet or exceed earnings projections. Valuation is considered reasonable considering the company's potential.

Accumulate: Appreciation potential greater than 0% and less than 20% over the next 12 months. Typically good companies, with fundamentals and earnings visibility intact, but current valuation limits upside potential.

Source of Funds: Stock is expected to decline as much as 20% over the next 12 months, due to a single or combination of factors including excessive valuation, negative sector sentiment, and/ or reduced earnings expectations.

Sell: Stock expected to decline 20% or more over the next 12 months. Company fundamentals are deteriorating, leading to material downward revisions in earnings projections and valuation.

**Distribution of Ratings, Firmwide****ThinkPanmure, LLC**

Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [B]	136	63.85	27	19.85
HOLD [Acc]	55	25.82	4	7.27
SELL [S/SoF]	22	10.33	0	0.00

This report does not purport to be a complete statement of all material facts related to any company, industry, or security mentioned. The information provided, while not guaranteed as to accuracy or completeness, has been obtained from sources believed to be reliable. The opinions expressed reflect our judgment at this time and are subject to change without notice and may or may not be updated. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. This notice shall not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any state in which said offer, solicitation, or sale would be unlawful prior to registration or qualification under the securities laws of any such state. This research report was originally prepared and distributed to institutional clients of ThinkPanmure, LLC.

Recipients who are not market professionals or institutional clients of ThinkPanmure, LLC should seek the advice of their personal financial advisors before making any investment decisions based on this report. Stocks mentioned in this report are not covered by ThinkPanmure, LLC unless otherwise mentioned.

Additional information on the securities mentioned is available on request. In the event that this is a compendium report (covers more than six ThinkPanmure, LLC-covered subject companies), ThinkPanmure, LLC may choose to provide specific disclosures for the subject companies by reference. For more information regarding these disclosures, please send a request to: Director of Research, ThinkPanmure, LLC, 600 Montgomery Street, San Francisco, California, 94111.

Member of FINRA and SIPC.

Copyright 2008 ThinkPanmure, LLC